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2 February 1956

CURRENT INTELLIGENCE WEEKLY SUMMARY



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THE WEEK IN BRIEF

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PART I

OF IMMEDIATE INTEREST

BULGANIN-EISENHOWER EXCHANGE Page 1

As of 1 February, the President's reply to Bulganin's note had not been published in the Soviet Union. Bulganin's proposal described by Moscow radio on 29 January as the "Geneva spirit in action," appears to have been conceived as a move to persuade world opinion that the USSR is upholding the Geneva spirit, while the United States is opposing Soviet efforts to relax tensions and improve relations with the West. Soviet foreign minister Molotov's remark in Prague on 28 January, that he could not understand how anyone could reject a friendship treaty, probably indicates the line Moscow will take on President Eisenhower's reply. [redacted]

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THE NEW FRENCH GOVERNMENT Page 2

The French assembly's 420-71 vote investing Guy Mollet is a recognition that a long delay in forming a cabinet would be fruitless since no enduring majority can be formed in the present parliament. Mollet is considered an interim premier by all except his own Socialists, but the strategy he has announced of concentrating on a limited number of issues may compensate for the lack of a stable majority for any long-range program, and may enable him to retain power much longer than anticipated. [redacted]

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ARAB-ISRAELI SITUATION Page 3

The military build-up of Israel and the Arab states has not slackened. While it is probable that neither side intends to launch major hostilities in the immediate future, [redacted]

[redacted] final Western refusal to provide arms to the Israelis might lead Tel Aviv eventually to take unilateral military action against one or more of its neighboring Arab states. [redacted]

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SOVIET BLOC MAY MAKE ISSUE
OF AIR-SPACE VIOLATIONS

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There were signs last week that the USSR may plan to make an issue of alleged violations of Soviet and Satellite territory by American aircraft and balloons. This would be in line with the principal theme of Soviet propaganda in recent months that the United States is attempting to bury the Geneva spirit.

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PART II

NOTES AND COMMENTS

USSR Suggests Quick Settlement With Japan: The four-point Soviet proposal to Japan, reported by the Japanese press on 27 January, is the USSR's first direct attempt to obtain a settlement with the Japanese along the lines of the agreement reached with West Germany last summer. The approach apparently was designed to strengthen pressures within the Hatoyama government to force a speedy settlement.

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Warsaw Pact Conference: The recent meeting in Prague of the political consultative committee of the Warsaw pact apparently was staged primarily to impress the West with the unity and strength of the Soviet bloc and to provide a platform for the reiteration of Soviet attitudes toward such questions as European security and the German problem. East Germany was formally enrolled as a full consultative and military member, and two permanent organizations--attached to the political committee--were established with representatives from all member states: (1) a standing committee to draft recommendations or questions of foreign policy; (2) a joint secretariat.

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Personnel Shifts in the USSR: The recent appointment of N.P. Dudorov to replace S.N. Kruglov as the Soviet Union's internal affairs minister and the appointment of N.A. Yasnov, former mayor of Moscow, as premier of the Russian republic (RSFSR), are the latest in the series of personnel changes apparently effected by Khrushchev in order to increase his control of the party's central committee on the eve of the 20th Party Congress.

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USSR Announces Fulfillment of 1955 Plan: The Soviet economy grew at about the same rate in 1955 as in 1954 and substantially fulfilled plans for its growth both for 1955 and for the Fifth Five-Year Plan. The situation of the consumer, however, improved less in 1955 than in any of the previous four years.

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Informal Soviet Boasts Exaggerate Economic Prospects:

In informal conversations at diplomatic receptions, top Soviet leaders have recently made exaggerated claims about the economic prospects of the USSR. Although the substantial economic growth charted in the Sixth Five-Year Plan is likely to be achieved in most respects, these informal claims by Khrushchev, Kaganovich and Saburov concerned agricultural provisions of the plan not likely to be carried out fully or rapid rates of development not even contemplated in the plan. This unrealistic show of optimism probably was intended to impress non-Communist countries, particularly in underdeveloped areas, with the strength of the Soviet system and its ability to match the West in economic competition.

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Shinsuke Kishi Slated for Prime Minister of Japan:

Shinsuke Kishi is expected by influential Japanese political leaders to succeed Ichiro Hatoyama as the next prime minister of Japan. He believes Japan should co-operate with the United States, but he will seek by tough bargaining to gain terms most advantageous to Japan.

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Burma-China Border Conference Scheduled: Burma has invited local Chinese Communist officials in Yunnan to attend a conference to be held in early February ostensibly to draft regulations regarding movements of the border peoples across the frontier. Its main purpose, however, probably is to impress Peiping with Burma's determination to maintain sovereignty over its border areas in impending boundary negotiations in Peiping.

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Chou En-lai Requests Conference on Indochina: Chou En-lai's request for a new conference on Indochina apparently marks the beginning of a considerably expanded Communist diplomatic and propaganda effort to force a new approach to the question of Vietnam's unification. The Communists may hope for a deal whereby a postponement of all-Vietnam elections would be accepted in return for agreement on greater economic co-operation between the two zones and neutralization of the area as a whole. The setting of a date for assembly elections in the south (4 March) has brought an intensification of Viet Minh propaganda attacks.

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Afghanistan: Both Afghanistan and the USSR are quickly moving toward detailed planning for use of the \$100,000,000 Soviet credit. The Afghans are now apparently willing to consider Soviet construction projects in the south as well as other parts of the country. Relations with Pakistan remain unchanged; preparations are being made for the meeting in May between King Zahir Shah and Pakistan's Governor General Mirza.

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North Africa: Rebel activities have been stepped up considerably in French Morocco and remain at a high level in Algeria. Agitation continues in Spanish Morocco, where Spain has announced a reform of the government is impending. In Tunisia, the government has acted to suppress the activities of nationalist extremist Salah ben Youssef.

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Greek Elections: The prospects of Prime Minister Karamanlis' party in the 19 February Greek parliamentary elections depend largely on whether the opposition Communist-controlled Popular Front can maintain its cohesion.

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Cyprus: The apparent lessening of Archbishop Makarios' opposition to Britain's latest formula for a provisional settlement of the Cyprus issue is not likely to hasten a permanent solution. Agreement on the formula would merely be a temporary truce in the continuing struggle over the union of Cyprus with Greece.

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East Germans Try to Halt Flow of Refugees: The East German government is taking new psychological measures to stem the continuing exodus from East Germany. The flow of refugees into West Berlin alone has averaged 3,500 a week since Christmas.

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Guatemalan Government Faces Domestic Opposition: A shake-up in top Guatemalan army positions was capped on 28 January with the arrest of the former chief of staff on the charge of implication in an antigovernment plot. Public dissatisfaction with the regime continues, and there is a possibility that important urban middle-class and labor groups may become alienated.

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PART III

PATTERNS AND PERSPECTIVESTHE PARTY CONGRESS IN THE SOVIET POLITICAL SYSTEM

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The Twentieth Congress of the Communist Party of the Soviet Union, scheduled to convene on 14 February, will be used by the regime for presenting its definitive report on foreign and domestic policy and the current status of the party. Authoritative pronouncements on ideological questions will probably also be included. In addition, the congress will elect a new central committee, the membership of which will actually have been decided beforehand by higher authority. The composition of the central committee will register the results of political maneuvering behind the scenes and indicate the standing of the various leaders.

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GROWTH OF TRANSPORT AND LOGISTIC CAPABILITIES IN EAST CHINA

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The Chinese Communists are continuing work on a long-term plan, initiated in 1953, to overcome the isolation of the East China coastal region opposite Taiwan. Principal elements in this plan are a new road net and a railroad. The road net has been finished and the railroad may be completed by the end of this year. An increase in coastal shipping, which has also been noted, means that the Communists have improved their capabilities to lay in supplies for military operations and to support jet aircraft activity on the new air-fields in the area.

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ANTI-WESTERN ELEMENTS IN SYRIA

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A small energetic grouping of nationalists, Communists and other leftists in Syria is capitalizing on divisions and lack of drive among "old guard" politicians to establish practical control over the country's foreign policy. As a result, any Syrian government operating under present conditions is likely to pursue an anti-Western, anti-Baghdad pact policy, and will probably continue to align itself with Egypt and Saudi Arabia. It will also probably become increasingly receptive to Soviet overtures.

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CHILE'S ECONOMIC PLIGHT

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Chile's long-continued inflation, which has been the cause of extensive strikes in the copper industry and elsewhere, is the result of a serious imbalance in the economy. This imbalance stems in part from the country's dependence on copper and nitrate exports and in part from the efforts of successive governments to reduce this dependence by encouraging industrial self-sufficiency. The Ibanez government, though persistently handicapped by its ineptness in dealing with an unfriendly legislature, has in the past two years made some progress in attacking the basic problem, and last month won narrow congressional approval for the first step of its new anti-inflation program.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****2 February 1956****PART I****OF IMMEDIATE INTEREST****BULGANIN-EISENHOWER EXCHANGE**

As of 1 February, the President's reply to Prime Minister Bulganin's note had not been published in the Soviet Union. Bulganin's proposal, described by Moscow radio on 29 January as the "Geneva spirit in action," appears to have been conceived as a move to persuade world opinion that the USSR is upholding the Geneva spirit while the United States is opposing Soviet efforts to relax tensions and improve relations with the West. Foreign Minister Molotov's remark in Prague on 28 January that he could not understand how anyone could reject a friendship treaty probably indicates the line Moscow will take on President Eisenhower's reply.

Ambassador Bohlen has suggested that the Soviet leaders are withholding publication of the President's reply until its effect can be offset by another message from Bulganin, or at least until the line to be followed in editorial and other comment has been determined. The Moscow press and radio have begun to prepare the Russian people. Moscow radio has commented that American "unwillingness to accept the proposal has caused profound disillusionment among the supporters of peace and a relaxation of international tension."

The intent of Bulganin's proposal was evident both in the content of the letter and the draft treaty and in the elaborately staged and highly

publicized manner in which it was delivered to the President. If the Soviet leaders had desired to open serious bilateral negotiations with the United States, they would almost certainly have first made cautious soundings of Washington's attitude.

They were probably confident that, whether the proposal was accepted or rejected, the USSR would be widely credited with having taken a bold initiative of far-reaching importance to overcome the impediments in US-USSR relations which Bulganin portrayed as the principal barrier to the settlement of the fundamental political issues which have divided the world since the end of World War II.

Moscow will probably try to use the exchange of letters to discredit American policies, hoping to divide the United States from its allies, and to sow distrust of America in the many medium and small powers which the USSR is trying to persuade to adopt a neutral course in international affairs.

A Czech English-language broadcast on 29 January declared that "it must be clear to anyone that a state which rejects a treaty of friendship with another state must be intending to carry out an exactly opposite policy, a policy of enmity and disagreement." Bulganin, the broadcast said, "has now put the American President's sincerity to the test.... Eisenhower failed in this test." 25X1

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THE NEW FRENCH GOVERNMENT

The French National Assembly's 420-71 vote investing Guy Mollet as premier on 31 January is a recognition that a prolonged crisis would be fruitless, since no real majority can be formed in the present parliament.

Mollet is considered an interim premier by all except his own Socialist Party. The Communists are backing him as a step toward a popular front, while many right-center deputies are backing him in order to block a popular front. The Mendes-France Radicals, meanwhile, support him with an eye to their own future leadership of a more broadly based center coalition.

The nature of Mollet's support has led many observers to believe his government will last no more than three or four months. Nevertheless, the wide margin of support implied by the investiture vote and his announced strategy of concentrating on a limited number of issues may compensate for the lack of a stable majority for any long-range program, and may permit him to retain power much longer.

In the last assembly, several cabinets formed with a short life expectancy lasted longer than others launched with more promising prospects, and particularly in the past two years the tendency has been toward longer tenure. This has been partly due to public disapproval of frequent and prolonged crises, but also to the dexterity with which such

premiers as Faure and Mendes-France shifted majorities on successive issues.

Mollet's immediate concern is Algeria, for which most Frenchmen agree some new political relationship must be worked out quickly. As soon as he presents concrete solutions for the problems he has outlined, however, the opposition both in France and in Algeria will crystallize.

He has so far limited himself to generalizations which suggest he will try the approach Mendes-France used in Tunisia in 1954 to win a cessation of violence. Mollet has not revealed how he plans to assure representative elections and still safeguard the interests of the French minority, or on what basis the proposed Algerian representatives would be empowered to negotiate with France.

If Mollet succeeds in negotiating a quick Algerian settlement, he will probably try to broaden his support by pressing for French participation in the proposed European atomic energy pool (EURATOM), since there is considerable backing among right-center elements for this aspect of European integration. In the meantime, the Communists will probably redouble their efforts to disrupt any rapprochement between the Republican Front and the right-center bloc, particularly by pressing the church-school issue.

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ARAB-ISRAELI SITUATION

The military build-up of Israel and the Arab states has not slackened. While it is probable that neither side intends to launch major hostilities in the immediate future.

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[redacted] final Western refusal to provide arms to the Israelis might lead Tel Aviv eventually to take unilateral military action against one or more of its neighboring Arab states.

A relatively large movement of Egyptian armor toward eastern Sinai has been observed and the equipment moved apparently included at least 21 Soviet T-34 tanks.

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[redacted] Major Sarraj, leader of the dominant younger officer group in the Syrian army, has stated that the army is "not at all satisfied" with the UN censure of Israel for the attack across Lake Tiberias last December and will be satisfied only with the disappearance of Israel. Sarraj asserted that the Arabs are now stronger than Israel and that the time to fight would come sooner than the West thought. On 28 January, Prime Minister Ghazzi warned that if Israel resumes work on diverting water resources near the Syrian border, it would be "the beginning of war."

UN secretary general Hammerskjold believes that the next few months may offer a better opportunity to settle the Arab-Israeli problem than might arise later on. Hammerskjold told the American embassy in Karachi that his trip to the Middle East had led him to believe that both Nasr and the Israeli leaders want peace.

In his view, however, Nasr now wants peace but may not seek a settlement when Egypt becomes stronger, while Israel, strong in the short run, is interested in a settlement in the long run. The secretary general feels a settlement imposed by the West could not be accepted by the weak Arab governments and doubts their ability in any case to control the Palestine refugees. Hammerskjold's opinion also supports the Syrian prime minister's statement that Syria would fight if Israel resumed its water diversion projects.

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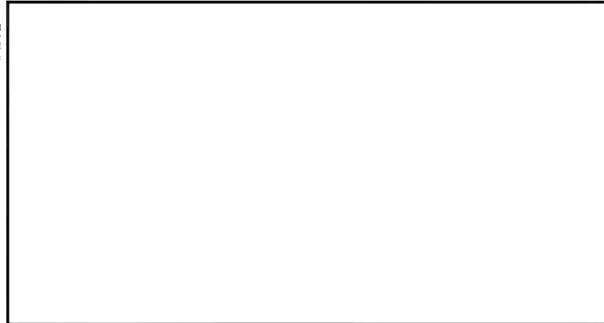
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SOVIET BLOC MAY MAKE ISSUE
OF AIR-SPACE VIOLATIONS

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There were signs last week that the USSR may plan to make a major international issue of alleged violations of Soviet and Satellite territory by American aircraft and balloons. The Soviet leaders may believe that moves to expose alleged American violations of bloc air space would strengthen their current campaign to embarrass the United States with its allies and to discredit American policies and intentions in the eyes of Asian and African governments.

Such moves, which might even include another aircraft "incident," would be in line with the principal theme of Soviet propaganda in recent months that the United States is attempting to bury the Geneva spirit and to renew the cold war.



Soviet and Satellite propaganda since mid-January suggests that the bloc may be preparing to make an international issue of the Radio Free Europe balloon operation on the ground that it involves hazards to air navigation.

The Czech government is taking the lead by stepping up its campaign against RFE following the crash of a Czech airliner on 18 January. On 21 January, Prague moved to "internationalize" this issue by requesting the International Civil Aviation Organization to take immediate steps to remove the danger to air transport caused by these balloon flights. A possible Soviet diplomatic protest to the West German government was foreshadowed in Pravda's 24 January remark that "until now, the West German authorities have taken no measures to stop such activities."

In addition to a diplomatic protest to Bonn

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it is possible that the USSR and the Satellites will move to place on legal record a documented claim against the United States and may even press this claim in the United Nations, showing exhibits of recovered balloons and aircraft parts.

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The British ambassador in Manila told Ambassador Ferguson on 29 January that he had "heard" that Moscow would carry the balloons issue to the United Nations Security Council. On 28 January, Czech politburo member

Fierlinger [redacted]

[redacted] that the Czechs now had proof that the balloons released by the United

States to drift over Czechoslovakia carried instruments for reconnaissance, and the East German premier's press office announced on 31 January that several American-made balloons carrying equipment for high-altitude aerial photography have been "rendered harmless" over East German territory.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

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PART II

NOTES AND COMMENTSUSSR Suggests Quick Settlement With Japan

The four-point Soviet proposal to Japan, reported by the Japanese press on 27 January, is the USSR's first direct attempt to obtain a settlement with the Japanese along the lines of the agreement reached with West Germany last summer. The approach apparently was designed to strengthen pressures within the Hatoyama government to force a speedy settlement.

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premier, who is more inclined toward a speedy settlement.

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The proposal for a unilateral Soviet termination of the state of war, regarded by the USSR as a necessary first step to normalization of relations, may have been calculated to increase the pressure on Hatoyama to act. It is also an indication of the Soviet desire to get results in the negotiations. The USSR has often expressed impatience with what it considers unreasonable Japanese obduracy.

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The Soviet proposal, which was turned down by Prime Minister Hatoyama in a speech before the Diet on 30 January, provides for unilateral Soviet action to terminate the state of war, repatriation of Japanese POW's, establishment of diplomatic relations, and postponement of other more controversial questions.

The Soviet terms cited directly reflect party chief Khrushchev's views on Japanese-Soviet relations as expressed to a Japanese parliamentary delegation in Moscow last September. Acceptance of these proposals would have reduced Japan's bargaining power in its claims for former Japanese territory in the Kurils area now occupied by the Soviet Union.

The proposal was made to Hatoyama through his informal adviser on foreign affairs, Harata Sugihara. In bypassing the Japanese Foreign Ministry and the diplomatic negotiations now being conducted in London, the USSR indicated its preference for dealing with the

political supporters of a quick treaty undoubtedly also expect that Soviet concessions will enable them to present the treaty as a victory which will enhance conservative prospects in the June election for members in the Japanese upper house.

Both sides are aware of the critical role Japanese public opinion has played in shaping the negotiations. Public opinion reacted against the "early settlement" trial balloon Hatoyama released in a press conference last week, and apparently prompted his

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endorsement of Japan's policy of firmness before the Diet on 30 January. While Hatoyama undoubtedly favors a quick agreement for restoration of rela-

tions with Moscow, strong elements in his party oppose a soft policy toward the Orbit and they will probably prevent any precipitate action. [redacted]

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Special Classified
Warsaw Pact Conference

The recent two-day meeting in Prague of the political consultative committee of the Warsaw pact apparently was staged primarily to impress the West with the unity and strength of the Soviet bloc and to provide a platform for the reiteration of Soviet attitudes on such questions as European security and the German problem.

The committee, which announced few accomplishments of a substantive nature, formally enrolled East Germany into the organization as a full consultative and military partner, a move which was deferred last May by the pact congress in Warsaw. The new East German defense minister was made one of the deputy commanders of the unified armed forces, and provisions were made for the inclusion of East German contingents in the forces of the combined command.

Major speeches at the meeting were relatively moderate in tone, again asserting a need for a European collective security system, re-emphasizing bloc friendship for Yugoslavia, Greece, Turkey and the Asian and African countries, and charging that threats to peace are posed by NATO and the remilitarization of West Germany. The committee also discussed the desirability of limiting the size and armaments of the armed forces in both East and West Germany and of creating at least a partially demilitarized zone in central Europe. Both of these proposals had been advanced by Soviet foreign minister Molotov in Geneva last November.

The final communique issued on 28 January stated that the committee had resolved organizational questions concerning the "activities" of the joint armed forces, assigned by the signatories of the Warsaw treaty to the joint command under Marshal Konev. These matters may have included the allocation and stationing of bloc troops.

Formal actions by the Warsaw pact members could be used as legal justification for the retention of troops in Hungary and Rumania and possibly for the future movement of Soviet forces into Bulgaria and Czechoslovakia. Some of the satellites reportedly have already allocated portions of their armed forces to the unified command.

The communique also revealed the establishment of two auxiliary bodies, which will be located in Moscow, attached to the political committee; a standing committee to draft "recommendations on questions of foreign policy," and a joint secretariat, headed by Soviet general Antonov, consisting of permanent representatives from all member states. In addition, it was decided to hold meetings of the political consultative committee at least twice a year and to elect a chairman, who will be chosen successively from the signatory nations, once a year. Albanian premier Shehu was elected as the first chairman. This system was presumably adopted in order to avoid appearances of complete domination of the pact by the USSR. [redacted]

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Personnel Shifts in the USSR

The recent appointment of N. P. Dudorov to replace S. N. Kruglov as the Soviet Union's internal affairs minister and the "resignation" on 24 January of A. M. Puzanov as premier of the Russian Republic (RSFSR) and his replacement by M. A. Yasnov, erstwhile mayor of Moscow, are the latest in the series of personnel changes apparently effected by Khrushchev in order to increase his control of the party's central committee on the eve of the 20th Party Congress. Khrushchev's hand can also be seen in the replacement of N. A. Shatalin and N. I. Gusarov as party bosses in the Primorye Krai and Tula Oblast respectively, positions which probably carry a slot on the central committee.

No reasons were given for Kruglov's dismissal, but financial and production difficulties within his ministry may have been at least partly responsible.

Dudorov rose to prominence in the Moscow City party organization and became a deputy mayor under Yasnov at a time when Khrushchev as Moscow Oblast party boss presumably controlled personnel appointments in the capital. When Khrushchev reorganized the party's central committee apparatus in 1954 and early 1955, Dudorov was picked to head the central committee's newly created construction department.

Puzanov's resignation was accepted at the closing session of the RSFSR Supreme Soviet. His "request" for release contains the same "motives" and in some cases the same wording

found in Malenkov's "resignation" last February. Like Malenkov, he was assigned a lower post in the government.

Yasnov, the new RSFSR premier, has had a long association with Khrushchev. He "distinguished himself as an organizer in the reconstruction of Moscow City" in the 1930's when Khrushchev was a Moscow party secretary. When Khrushchev returned from the Ukraine to become Moscow Oblast party boss, Yasnov was immediately made mayor of Moscow, the job once held by N. A. Bulganin.

Yasnov is already a full member of the central committee. The new Moscow mayor will probably be N. I. Bobrovnikov, Yasnov's first deputy since 1950 and probably a supporter of Khrushchev. Bobrovnikov would thus be in line for a position on the central committee.

Both Shatalin and Busarov were replaced by first secretaries transferred from other RSFSR oblasts who will presumably retain their central committee status. Shatalin, long a Malenkov supporter, had been demoted in March 1955 from all-Union party secretary to the Primorye post, apparently a short stop on his way to political oblivion. Gusarov may have incurred Khrushchev's enmity as long ago as 1946 when as an inspector of the central committee he sharply criticized the Ukrainian central committee, then headed by Khrushchev, for "serious shortcomings" in the selection, allocation and training of party and government personnel. [redacted]

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****2 February 1956****USSR Announces Fulfillment
Of 1955 Plan**

The Soviet economy grew at about the same rate in 1955 as in 1954 and substantially fulfilled plans for its growth both for 1955 and for the Fifth Five-Year Plan. The 1955 report of the Central Statistical Administration issued on 29 January confirms earlier indications of a marked unevenness of growth and shows that heavy industry and agriculture still hold priority. The situation of the consumer improved less in 1955 than in any of the previous four years.

Gross industrial product increased by 12 percent in 1955, as against 13 percent the previous year. The 1955 plan was overfulfilled by about 3 percent and the original Fifth Five-Year Plan as a whole by about 9 percent. In the Fifth Five-Year Plan period Soviet industrial production grew 70 percent in terms comparable to US growth of about 23 percent. Soviet industrial production grew from 21 percent of US production in 1950 to 28 percent in 1956.

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USSR ECONOMIC PROGRESS

Category	Percent Increases Over Previous Year		Percent Increases 1955 Over 1950	
	1954	1955	Planned *	Actual
<u>Aggregates</u>				
National Income	11	10	64	68
Industry	13	12	(80)	85
Producer Goods	(13)	(16)	84	91
Consumer Goods	(12)	(8)	71	76
Investment	15	6	unknown	unknown
Productivity of Industrial Labor Force	7	8	50	45
Retail Trade Turn-over	18	5	100	89
<u>Production of Selected Producer Goods</u>				
Pig Iron	9	11	76	72
Steel	8	9	62	65
Coal	8	13	51	50
Oil	12	19	85	87
Electric Power	11	13	80	83
Mineral Fertilizers	16	20	88	75
<u>Production of Selected Consumer Goods</u>				
Fish	14	9	83	(57)
Meat	9	3	100	62
Butter	2	18	76	36
Canned Goods	16	18	122	104
Cotton Textiles	6	6	61	52
Woolen Textiles	17	3	68	61

(*) - estimated

* - Latest Plan goals shown

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No figures were released for the growth of heavy industry and light industry separately, but the 1955 report suggests that the rate of growth of heavy industry in 1955 may have been almost twice that of light industry. Planned goals, both for the single year and the five-year period, were overfulfilled for steel, oil, and electric power, though not for coal and pig iron. It appears likely that investment in 1955 was only 6 percent greater than in 1954, and was largely directed toward the completion of projects initiated in earlier years--a normal practice in the last year of a Five-Year Plan period.

Rates of increase in the output of the most important food-stuffs and manufactured consumer goods remained stationary or diminished in 1955. Dairy products, canned goods, hosiery, and

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pianos were the only exceptions. It is apparent from data in the 1955 report that even the pre-Malenkov plans for many food-stuffs and items of clothing were underfulfilled by considerable margins.

Despite drought conditions in the "new lands," the harvest, except for cotton and potatoes, was considerably above 1954. However, both the grain harvest and livestock population were far below Fifth Five-Year Plan goals.

Consumer welfare improved less in 1955 than in any of the previous four years. State and co-operative retail trade, in comparable prices, increased by only 5 percent over 1954, one half of the rise recorded in 1952, the next smallest for the

five-year period. With the important exceptions of milk and milk produce, eggs and vegetables, announced sales increases were lower than in 1954--in most cases, considerably lower. There was improvement in the last half of the year, when the effects of a good harvest began to be felt.

The total income of workers and employees rose by only 3 percent, little more than the increase in numbers, and that of peasants by 7 percent, whereas in 1954 the income of both groups rose 11 percent. Since there was no retail price reduction in 1955 it is apparent that workers' living standards barely maintained their 1954 level.

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Informal Soviet Boasts
Exaggerate Economic Prospects

In informal conversations at diplomatic receptions, top Soviet leaders have recently made a number of exaggerated claims about the economic prospects of the USSR. Although the substantial economic growth charted in the new Sixth Five-Year Plan (1956-1960) is likely to be achieved in most respects, these informal claims by Khrushchev, Kaganovich and Saburov concerned agricultural provisions of the plan not likely to be carried out fully or rapid rates of development not even contemplated in the plan.

This startling and unrealistic show of optimism probably was intended to impress non-Communist countries, particularly in underdeveloped areas, with the strength of the Soviet system and its ability to match the West in economic competition.

Khrushchev, at a "joyful" reception on 26 January, stated that the Sixth Five-Year Plan goals for agriculture would be met. He claimed that the 1960 milk and meat goals would be met within two years and that those for grain would be attained before the end of the five-year period. Fulfillment of the milk plan, which calls for nearly doubling production, would be impossible in two years. Doubling of meat production, as scheduled in the Sixth Five-Year Plan, is impossible in two years and even in five. The yearly increase for the past five years has not exceeded about 3 percent. Fulfillment of the grain goal is equally unlikely.

At another reception the same day, Saburov allegedly stated that the working day will be reduced from eight to seven hours. This seems

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completely inconsistent with Sixth Five-Year Plan demands for a considerable increase in output, in view of the fact that the growth rate of the Soviet labor supply is temporarily declining. His claim that Soviet total and per capita production will catch up with US output in the foreseeable future is equally illusory.

Even though at present rates of growth the USSR will increase its industrial production from one fourth to two fifths of US output between 1955 and 1960, the absolute gap between US and Soviet total industrial output will be slightly greater in 1960 than at present.

Khrushchev and Kaganovich also added some comments on Soviet economic policy apparently designed more to impress

underdeveloped countries than to guide Soviet administrators. Despite the continuing castigation by the Soviet press of persons advocating a rate of growth for light industry approaching that of heavy industry, even in the future, Khrushchev forecast a rate for light industry in excess of that for heavy within two or three Five-Year Plans.

Kaganovich allegedly stated that a transfer of power to local governments and authorities--in order to increase individual initiative and private property--was the central tendency of the new plan. This tendency is not readily apparent from the draft of the plan. [Prepared by ORR]

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Shinsuke Kishi Slated
For Prime Minister of Japan

Shinsuke Kishi is expected by influential Japanese political leaders to succeed Ichiro Hatoyama as the next prime minister of Japan. Kishi, now secretary of the conservative Liberal-Democratic Party, was the leading promoter of the successful conservative merger of November 1955. By careful maneuvers he has maintained a broad base of support among the various party factions.

Kishi has always been a strong contender. His prospects for elevation to the top governmental position were advanced by the death on 28 January of Taketora Ogata, former deputy prime minister and president of the defunct Liberal Party, who was the leading candidate. Present plans apparently envisage the election of Hatoyama as head of the Liberal-Democratic Party and his continuation as prime

minister while Kishi is groomed for the succession.

Possibly following the upper house elections in June, and in any case no later than October, Hatoyama is expected to retire, and Kishi will then assume the mantle as party and



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government chief. This may depend, however, on the successful conclusion of the negotiations with the USSR in London, which Hatoyama ardently desires to assure his niche in history.

Kishi was a leading participant in Japan's economic venture in Manchuria. He later became commerce and industry minister under Tojo and subsequently was minister of munitions. Following the surrender, Kishi was imprisoned for two years as a war crimes suspect. He is now a leading advocate of rearmament, constitutional revision, and a controlled economy. In addition, he has called for the adoption of

strong measures to combat Communist internal subversion.

Kishi maintains that Japan's survival depends on the maintenance of the closest possible economic and political ties with the United States. He emphasizes, however, that Japan must achieve an independent, equal relationship with the United States and be free to decide its own destiny.

Kishi at 59 is one of the younger conservative leaders and, while ruthless and calculating, is capable of demonstrating strong, decisive, intelligent leadership.

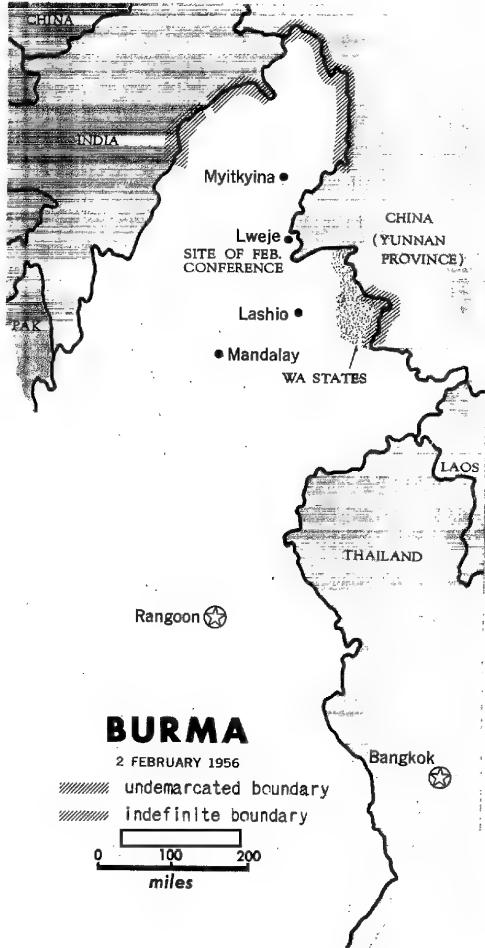
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Burma-China Border Conference Scheduled

The Burmese government will hold a conference on behalf of border peoples early this month to which local Chinese Communist officials from Yunnan Province have been invited. It will be held at Lweje, near the Chinese border in north Burma.

Premier Nu may visit the conference, and the Burmese home minister will be there to exhort the border peoples "to live in peace." Discussions will be conducted by local officials on both sides of the border.

The purpose of the conference, as outlined to the press by U Nu, is to devise procedures for regulating movements across the frontier and to discuss the maintenance of law and order in general. An underlying motivation, however, is probably Burma's desire to impress Peiping with its determination to maintain sovereignty over its border areas. Some of



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these areas have been claimed by past Chinese governments but appear on Communist maps as part of China. Burma may organize "spontaneous" demonstrations of loyalty by the nearly 3,000 tribal chiefs who are expected to participate in the conference.

Despite the increasingly close Sino-Burmese ties of the past two years, Burma's 1,000-mile frontier with Communist China continues to be a source of serious concern to Rangoon. There have been frequent Chinese incursions into the Burmese Wa States, one of the areas in dispute. Peiping has

given no indication of abandoning efforts to subvert the various hill peoples on the Burma side of the border.

The questions of settling the frontier between Yunnan and the northern part of the Kachin State and marking the border of the Wa States apparently will not be discussed at the conference. They are to be taken up by the Burmese ambassador on his return to Peiping from home leave. Rangoon doubtless hopes, however, that the meeting will strengthen its bargaining position in what promise to be difficult negotiations. 25X1

Chou En-lai Requests Conference on Indochina

Chou En-lai's letter of 26 January to the foreign ministers of Great Britain and the USSR requesting that a new conference on Indochina be convened apparently marks the beginning of a considerably expanded diplomatic and propaganda effort by the Communists to force a new approach to the question of Vietnamese unification. Chou proposed that in addition to the 1954 Geneva powers, India, Canada, and Poland, whose representatives constitute the International Control Commission in Indochina, should participate in a new conference.

According to the British Foreign Office, a Polish truce official in Vietnam has hinted that the Communists' objectives at a conference would include a postponement of the elections for unification (which the

original Geneva terms set for July 1956), the establishment of close economic relations between the two zones of Vietnam, "neutralization," and new terms of reference for the Control Commission. The Polish official implied that failure to convene the conference would bring an intensification of the Viet Minh's subversive activities in South Vietnam.

Chou's proposal is expected to receive strong Indian support. France may also favor it as an opportunity to divest itself of responsibilities it is no longer capable of carrying out. Prince Sihanouk of Cambodia would probably welcome a new conference as an opportunity to re-enter the international limelight. The British are believed cool to Chou's proposal; they have cited the need to get the

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views of all concerned before taking action.

Meanwhile, the official scheduling of the national assembly elections in South Vietnam for 4 March has brought new intensity to Viet Minh propaganda attacks on the Diem government. Hanoi radio repeatedly calls on the Vietnamese people to unite to smash Diem's "illegal and Machiavellian plot" to hold "unilateral" elections. However, by stating at the same time that "even if a national assembly is formed, our compatriots in the south would resolutely oppose it," the Viet Minh virtually concedes its inability to prevent the elections.

Soviet propaganda treatment of South Vietnam's forthcoming assembly elections has thus far been perfunctory. An intensification of propaganda on this subject throughout the Communist world would undoubtedly be linked to strong support for Chou En-Lai's call for a new conference.

While the Viet Minh is obviously not relying solely on its clandestine organization in the south to achieve its objectives there, the efforts to strengthen this organization continues to have a high priority. This effort includes a campaign to develop a guerrilla potential, to win the sympathy of the population, to infiltrate government organs and political parties, and to make alliances with antigovernment groups.

The Viet Minh has scored considerable success by its co-operation with the Hoa Hao rebels since last fall. An improvement in the rebels' combat effectiveness has been noted, and in a clash in mid-January the Vietnamese army suffered its heaviest casualties in any single action since the end of the Indochina war-- 61 killed and missing. An estimated 600 Viet Minh political and military advisers are now serving with Hoa Hao forces of approximately 3,800. In a new campaign against these forces, widely dispersed in the southwest, the Vietnamese army is deploying some 45,000 troops. [redacted]

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Afghanistan

Both Afghanistan and the USSR are quickly moving toward detailed planning for use of the \$100,000,000 Soviet credit. The Afghans are now apparently willing to consider Soviet construction projects in the

south as well as other parts of the country. Relations with Pakistan remain unchanged; preparations are being made for the meeting in May between King Zahir Shah and Pakistan's Governor General Mirza.

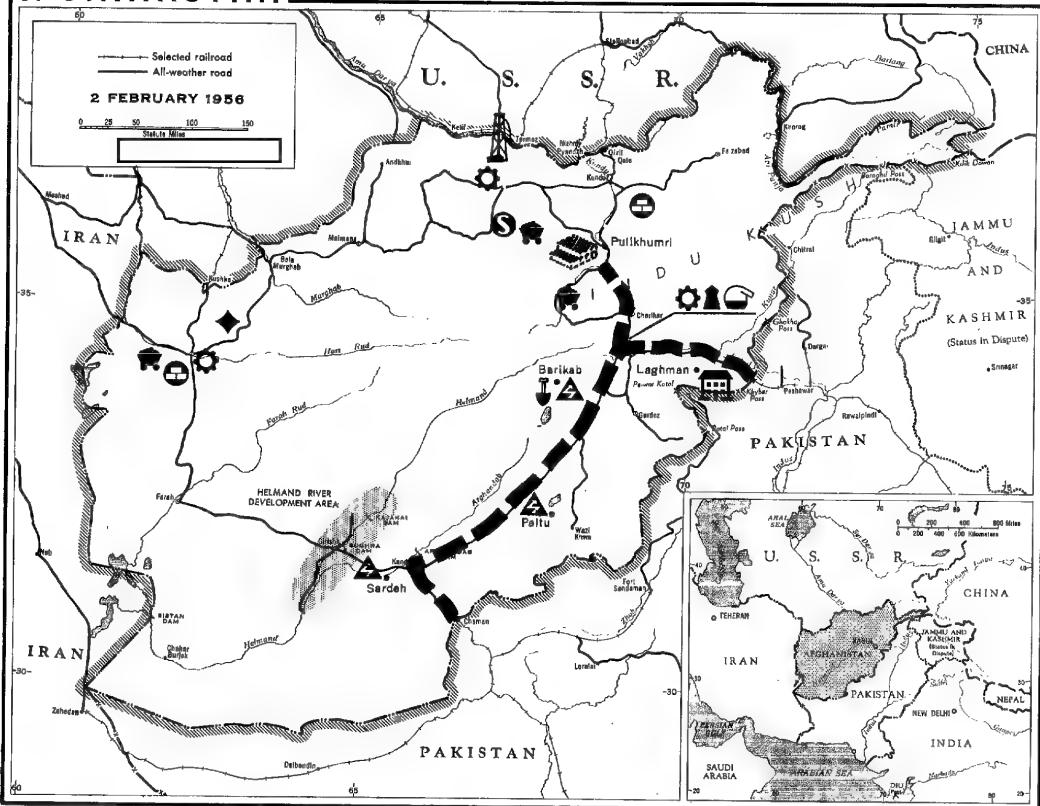
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AFGHANISTAN



Development Projects Suggested For Soviet Consideration

 Irrigation development  Dam and machinery  Electrical plant  Auto repair shop <hr/>  Road development and construction: a. Kabul-Kandahar (est.cost: \$7,680,000) b. Kabul-Pakistan border (est. cost: \$4,950,000) c. Salang road (est. cost: \$1,674,000) d. Kabul-Jabalus Saraj (est. cost: \$1,434,302) e. Kandahar-Pakistan border (est. cost: \$1,712,000)	 Mineral development: a. Oil (est. cost: \$2,700,000)  b. Sulphur (est. cost: \$470,000)  c. Salt (est. cost: \$175,000)  d. Coal (est. cost: \$1,770,000)  e. Lapis lazuli (est. cost: \$75,000) <hr/>  Multi-purpose community project  Airport (est. cost: \$2,500,000)  New aircraft (est. cost: \$2,000,000)  Laboratory
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The Afghan-Soviet credit agreement which was signed in Kabul on 28 January provides for a 30-year loan at 2 percent, according to Moscow press reports. The Afghans are to draw equal amounts of the \$100,000,000 each year for the first 22 years and repay the whole in the last eight years.

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[redacted] the USSR has requested visas for 300 Soviet technicians to survey individual projects. The American embassy in Kabul, however, reports that the Afghans are beginning to chafe at Soviet pressure and at the conditions insisted on by the USSR for specific project agreements, although the government still insists no strings are attached.

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If the entire \$100,000,000 Soviet credit is applied to the newly announced Afghan Five-Year Plan, [redacted]

[redacted] the USSR will play a large role in execution of the plan. [redacted]

The arrival of the Soviet negotiating mission, led by the deputy chief of the Chief Directorate for Economic Relations of the USSR, was reportedly unexpected and suggests the USSR is moving quickly to obtain maximum advantage from its loan. [redacted]

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A report that traffic is moving freely through Peshawar in Pakistan and a statement by Afghan foreign minister Naim that Kabul might be willing to resume regular shipments through Pakistan if Karachi pledged not to impose restrictions on traffic in instances short of war, suggests that a possibility still exists for eventual settlement of part of the Pakistani-Afghan quarrel through negotiations.

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North Africa

FRENCH MOROCCO

Berber tribes, which have been in rebellion in north-eastern Morocco since 1 October, recently stepped up their attacks in an apparent effort to surround the important communications center of Taza. On 28 January an unusually large band of about 300 rebels engaged a Foreign Legion battalion

north of Taza and some 40 rebels and 20 Legionnaires were slain. This increased activity may be an effort to intensify pressure on France as the date approaches for the commencement of Moroccan-French negotiations, which are still expected to get under way on 15 February.

The rivalry between the major nationalist party, Istiqlal,

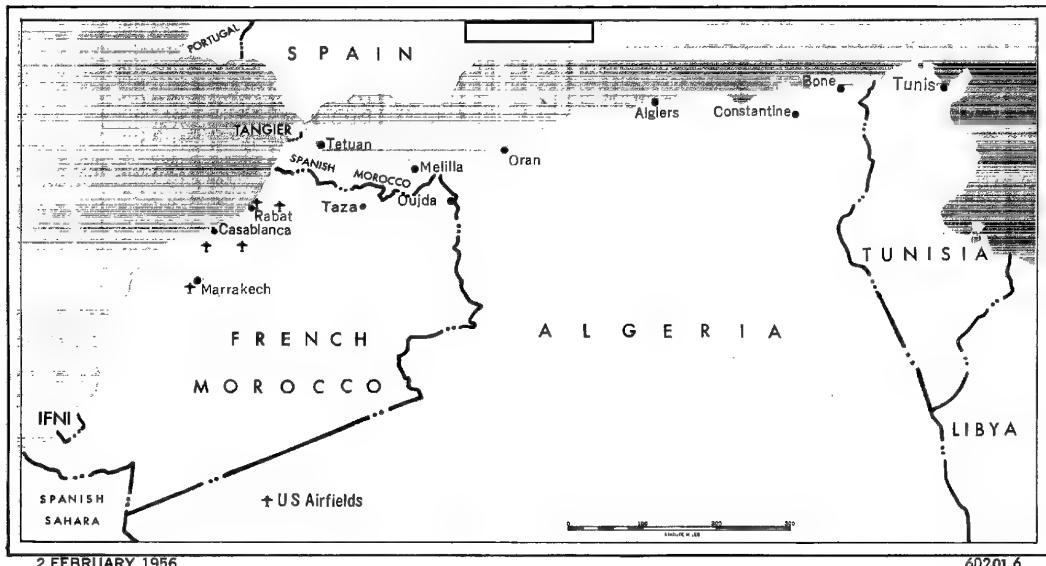
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and the smaller French-backed Shoura party erupted in a brawl on 23 January. Four members of the Shoura party were killed and about 30 injured. Possibly as a result of this incident, these two parties, together with the Wahda party and the Spanish Moroccan Islah party, have announced the establishment of a "Committee on Conciliation and Union" to arbitrate interparty disputes.

Meanwhile, both Moroccan and French officials have reacted favorably to the announcement on 26 January that the United States will relinquish its extraterritorial rights in Morocco.

ALGERIA

Rebel activities continue in eastern Algeria and may be stepped up in order to exert pressure on the new French government for a more favorable settlement with the Algerians. The announcement by French premier Guy Mollet before his investiture that he would appoint General Georges Catroux

as minister resident in Algiers to replace Governor General Soustelle has been strongly protested by the rightist press in France and vigorously opposed by the conservative settlers in Algeria. These groups argue that Catroux negotiated France's departure from Syria and was Premier Faure's emissary to the Moroccan sultan when the sultan was in exile in Madagascar. His appointment to Algeria, therefore, in their view would foreshadow relinquishment of France's control over Algeria.

TUNISIA

In the face of a stepped-up terrorist campaign, the Tunisian government finally acted on 27 January to suppress the subversive activities of nationalist extremist Salah ben Youssef.

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The government's action may hamper Ben Youssef's immediate potential for creating disorders, but his popularity is likely to

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remain high as long as the government fails to alleviate the Tunisian economic crisis.

SPANISH MOROCCO

Agitation continues in Spanish Morocco, where Spain has announced an impending reform of the government.

Greek Elections

The prospects of Prime Minister Karamanlis' party on 19 February depend largely on whether the recently formed Popular Front, the membership of which ranges from the Communist-front EDA to a number of respected center party leaders, can maintain its cohesion.

Karamanlis has some important advantages. He controls the government, the new election law was designed to benefit his party, and he presents the only real alternative to Communist influence in the government. The American consul general in Salonika reports that the prime minister's recent campaigning in northern Greece was well received. Karamanlis' attacks on the Popular Front as a "new EAM"--a reference to the Communist-controlled party that fought the government during the guerrilla war--may have put the front on the defensive.

The apparent discomfiture of some center leaders at finding themselves allied with EDA suggests that the Popular Front may not hold together until the elections. Some center party leaders are resisting leftist attempts to increase their representation on the front's

electoral slate. The feeling is widespread in leftist parties that Sophocles Venizelos, leader of the Liberal Democratic Union, has a secret agreement with Karamanlis to abandon the front after the elections and join the prime minister in forming a new government.

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If the front should suffer substantial defections, and if Karamanlis is successful in dissociating himself from the generally unpopular social record of the Greek Rally, he might gain a comfortable majority.

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Cyprus

The apparent lessening of Archbishop Makarios' opposition to Britain's latest formula for a provisional settlement of the Cyprus issue is not likely to hasten a permanent solution. Agreement on the formula would merely be a temporary truce in the continuing struggle over the union of Cyprus with Greece.

Makarios told the American consul in Nicosia on 30 January that the British formula was now acceptable. However, he intends to demand Britain's acceptance of certain principles to be included in the constitution for Cyprus as a condition of his agreement on the formula. Among these principles are representation according to population; vesting of all executive and judicial authority, except over foreign affairs and defense, in the legislature; and relegation of the governor to a role as "constitutional monarch" without veto power.

These demands suggest that Makarios is preparing a basis for subsequent repudiation of any settlement. Ambassador Cannon in Athens has learned

from the British embassy that Governor Harding recently recommended to London that negotiations be broken off now rather than risk "an almost inevitable break" later over the question of powers reserved to Britain under a constitution.

The British program for self-government has not been revealed and may still be in process of formulation. It is likely to emerge as a compromise between the Greek community's demand for proportional representation and the Turkish minority's insistence on equal representation.

As a result of Harding's presentation on 27 January of London's "final offer," Makarios has consulted representative Greek-Cypriot groups, excluding the Communists.

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East Germans Try to Halt Flow of Refugees

The East German government is taking new psychological measures to stem the continuing exodus from East Germany. It has just held a show trial, ending on 28 January, at which two defendants were given death penalties for having "recruited" trained personnel to leave the German Democratic Republic (GDR).

The emphasis of the trial as well as concurrent editorial

comment indicated that a major purpose of the proceedings was to curb the flight of refugees, which has averaged 3,500 per week entering West Berlin since Christmas. The evidence used at the trial suggests that the East Germans are weaving a myth that flight to the West is usually a result of a Western plot against the GDR. They may be laying the basis for the future prosecution of would-be refugees,

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not on the basis of unauthorized exit from the GDR, but for participation in this alleged Western sabotage effort.

Other recent East German press treatment of the West Berlin problem has focused attention on a stepped-up "educational" campaign to keep East German youth out of West Berlin, and on American information

centers in the city as instigators of "propaganda and agent activities" in the GDR. Such propaganda is apparently intended to discredit American informational activities in West Berlin and to foster the concept that the GDR is beleaguered by US spies who lure innocent East German youths to the West.

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Guatemalan Government
Faces Domestic Opposition

A shake-up in top Guatemalan army positions was capped on 28 January with the arrest of the former chief of staff on the charge of implication in an antigovernment plot. Public dissatisfaction with the regime continues, and there is a possibility that urban middle-class and labor groups may become alienated.

Col. J. Ernesto Niederheitmann, whose relief as chief of staff of the army was announced on 23 January, was placed under arrest three days later. The government apparently has strong evidence that he was implicated in the abortive plot which led to a number of arrests in early January. After his arrest he was reportedly given an opportunity to go into voluntary exile, but demanded a chance to clear himself instead. President Castillo is said to have expressed concern over possible army reaction to the arrest.

Niederheitmann apparently belongs to a faction of conservative veterans of the 1954 "Army of Liberation" who have been critical of Castillo's moderate policies and who, until last month, held most top army posts. Personnel changes since then

have generally favored regular career officers. The regular officers, who form the bulk of the army's commissioned personnel, had resented the superior status of the "liberation" officers, and may now be partially mollified.

Whether or not Niederheitmann is tried and punished will depend on the government's estimate of his remaining influence in the army. It is probably not great at this time, but the "liberation" colonels may still be strong enough to attempt a coup.

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Meanwhile, dissatisfaction among important urban middle-class and labor elements

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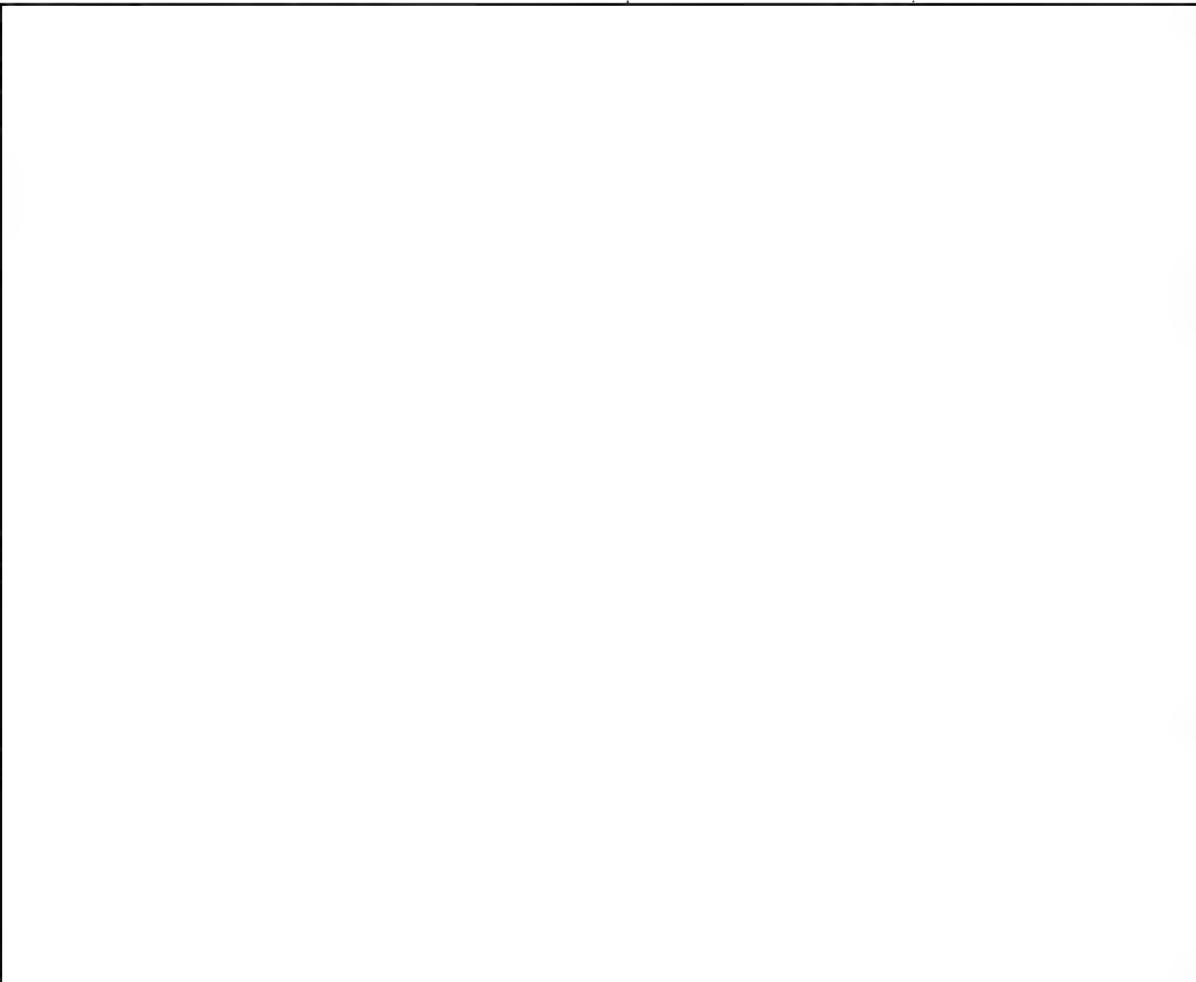
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continues at near the high level it had reached during and immediately after the congressional elections of 18 December. The independent press has been quick to criticize any real or imagined antidemocratic acts, and was unanimous in condemning the special procedures adopted by the government to assure itself a majority in the new congress.

Leftists and pro-Communists have exploited these popular dissatisfactions. On 9 January the leftist law students' organization threatened to strike unless the government permitted the return of those exiled following the recent abortive plot. The entire student body of the university soon entered the dispute and the government backed down three days later. [redacted]

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PART III

PATTERNS AND PERSPECTIVESTHE PARTY CONGRESS IN THE SOVIET POLITICAL SYSTEM

The 20th Congress of the Communist Party of the Soviet Union, scheduled to convene on 14 February, will be used by the regime for presenting its definitive report on foreign and domestic policy and the current status of the party. As in earlier congresses, authoritative pronouncements on ideological questions will probably also be included. In addition, the congress will elect a new central committee, the membership of which will actually have been decided beforehand by higher authority.

A Policy Propagating Body

The statutes of the Communist Party of the Soviet Union say that the congress is the "highest body" of the party. During the early years of the Communist regime, the congress was, in fact, an active participant in current policy determination, as a consultative and ratifying body of the ruling party. However, under Stalin, who convened it only four times after 1927, the party congress degenerated into one of the regime's policy propagating organs--a group which gives unanimous approval to the basic principles and current policies of the leadership.

The declining influence of the congress was accompanied by a tremendous increase in its

membership. In 1918, shortly after the party came to power, the congress consisted of 104 delegates. From that point on, the number of delegates increased steadily until 1934, when more than 2,000 attended the 16th Party Congress. The number dropped to 1,500 in 1939 as a result of purges, and dropped further to 1,359 at the 19th Congress in October 1952.

Delegates to the 20th Congress are being elected by republic congresses and regional conferences on the basis of one voting delegate for each 5,000 party members and one delegate with consultative status for each 5,000 party candidates. On the basis of Khrushchev's statement that the party now contains 8,000,000 members, approximately 1,600 delegates can be expected to attend the 20th Congress.

Duties of the Congress

The party statutes define four specific duties of the congress:

1. It hears and approves reports of the party central committee and other central organizations.
2. It reviews and amends the program and statutes of the party.

COMPOSITION AND FUNCTIONS OF TOP PARTY ORGANIZATIONS

	PARTY CONGRESS	CENTRAL COMMITTEE	AUDITING COMMISSION	PARTY PRESIDIUM	PARTY SECRETARIAT
FORMAL FUNCTIONS	1. Hears and approves reports of central committee and other top organizations. 2. Reviews and amends party program and party statutes. 3. Determines the tactical line of party. 4. Elects central committee and central auditing commission.	Directs the work of the party in the intervals between party congresses.	Inspects the operations of the party and party treasury, checking conduct, efficiency, and organizational conditions.	Acts for party's central committee between plenary sessions.	Verifies fulfillment of party decisions by party and government. Supervises selection of personnel in all fields.
ACTUAL FUNCTIONS	Gives unanimous approval to the principles and policies of the leadership.	Advises and influences the top leadership of the party.	Same as above.	Decides over-all policy for Soviet state. Collective dictator of the Soviet Union.	Same as above. Gathers information for party presidium.
COMPOSITION	1,359 delegates as elected in 1952.	125 members and 110 candidates or probationary members elected in 1952.	37 members, as elected in 1952.	Members - 11 at present Candidate members - 3 at present.	First Secretary Secretaries - 5 at present.
HOW CHOSEN	Formally elected by republic congresses and provincial conferences. Actually chosen by the top leadership through their supporters in the provinces.	Formally elected by the party congresses. Actually chosen by the party presidium.	Same as central committee.	Formally elected by the central committee. Consists of the top leaders of the party.	Formally elected by the central committee. Actually chosen by top party leaders.

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3. It determines the tactical line of the party on fundamental questions of current policy.

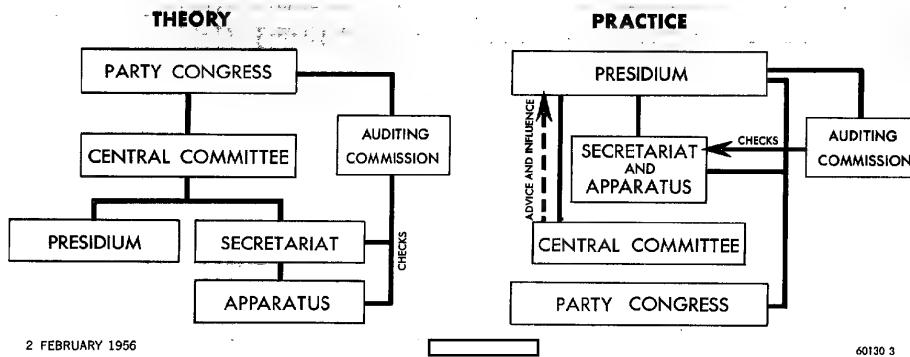
4. It elects the central committee of the Communist Party of the Soviet Union and the central auditing commission.

Agenda

The party congress has not been permitted to exercise most of these "prerogatives" for almost 30 years, however, and the agenda for the forthcoming congress is limited to four items:

this is the main address of the congress--a lengthy speech, delivered by Stalin for many years, and by Malenkov in 1952.

It has come to be an elaborate exposition, usually divided into three parts--the external situation of the USSR, its internal position, and the condition of the party. The report may also clarify the line on some ideological questions, such as what is expected in literature and art. Thus the report not only reviews the main developments since the last congress but also sketches the course

TOP ECHELONS OF THE COMMUNIST PARTY
OF THE SOVIET UNION

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1. Report of the central committee by party secretary Khrushchev.

2. Report of the central auditing commission.

3. Premier Bulganin's speech on the directives for the Sixth Five-Year Plan.

4. Election of the central committee.

After a brief introductory speech by one of the leaders (delivered by Molotov the last two times), the congress will hear Khrushchev's report of the central committee. Traditionally

for the future. Stalin's report to the 18th Congress in 1939, for instance, opened the door for the Molotov-Ribbentrop pact. In the past, the central committee report has been a particularly confident appraisal of the Soviet position.

The central committee report is followed by a report of the central auditing commission. This will be performed by the commission's chairman, who will probably make a perfunctory statement on party finances and the handling of complaints submitted to the top echelons of the party.

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At this point, in the past, the congress has listened to provincial party leaders and members of the central hierarchy "discuss" the central committee and auditing commission reports. At the last congress, more than 30 party leaders were permitted to make speeches expressing full approval of these two reports, and promising greater success in their particular spheres in the future.

The next item on the agenda, Premier Bulganin's speech, will fill in some of the details of the Sixth Five-Year Plan which was published in draft form on 15 January. This report will provide another opportunity for lesser leaders to take their turn on the rostrum in defending the plan, and it will probably be the occasion for Defense Minister Zhukov to discuss some of its military aspects.

The 20th Congress may amend the party statutes (the rules and regulations of the party--which were revised at the 19th Congress) or the party program (an outline of basic political aims and methods--the language of which is now badly out of date).

Discussion of these documents at the congress would provide fresh insight into some of the problems and policies of the leadership. Neither subject has been included on the agenda, however, and the propaganda build-up attending the preparations for the congress has not

mentioned revision of either of
the documents.

The last item on the agenda is the election of a new central committee. The old central committee elected in 1952 (125 full members and 110 candidate or probationary members, as constituted in 1952) was hand-picked by Stalin, and it has since been reduced by more than one third by purge, death, and demotion. A systematic filling of the vacancies in the ranks of the full members from the list of candidates does not appear to have been undertaken during the interim period, although it is known that Marshal Zhukov was promoted in this manner.

Thus a central committee with many new members will be elected, although, in fact, it will have been chosen beforehand by the top members of the party. Its composition will certainly reflect current strengths and weaknesses in the presidium.

Shortly after the congress adjourns, probably the next day, the new central committee will convene to choose the membership of the party presidium and secretariat. This is the last step in the make-believe system of Soviet political elections, and is purely ritual. Nevertheless, any replacements in these small groups will register the results of political maneuvering behind the scenes and indicate the standing of the various leaders.

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GROWTH OF TRANSPORT AND LOGISTIC CAPABILITIES IN EAST CHINA

The Chinese Communists are continuing work on a long-term plan, initiated in 1953, to overcome the isolation of the East China coastal region opposite Taiwan. Principal elements in this plan are a new road net and a railroad. The road net has already been finished, and the railroad may be completed by the end of this year. An increase in coastal shipping, which has also been noted, means that the Communists have improved their capabilities to lay in supplies for military operations and to support jet aircraft activity on the new air-fields in the area.

The mountains in East China have made communications throughout the region extremely difficult and are the cause of the area's comparative isolation from the rest of China.

Road Net

The rehabilitation of the road network connecting the coastal region opposite Taiwan with the Shanghai-Canton railroad was largely completed in early 1955. The last major segment still under construction, a 125-mile section on the coast between Ningte and Juian, was opened to traffic in January.

A significant road construction effort last year was the completion of military access and service roads on the Peiling Peninsula opposite the Matsus, and on the mainland opposite Quemoy. Although Foochow is now connected with points on the Shanghai-Canton railroad by a completely bridged road system, further bridging at present ferry points on other portions of the network would be required before a major logistic burden could be placed on the roads.

Rail Net

High priority is being accorded the construction of a 400-mile railroad from Yingtan on the Shanghai-Canton line across Fukien to Amoy. Eight of the eleven Chinese military engineering divisions have been assigned to this construction. Although the announced schedule calls for completion only as far as Yungan in 1956, preliminary construction is already under way between Yungan and Amoy. It is estimated that the Chinese have the capability to complete this railroad to Amoy in 1956 and are making every effort to do so.

Communist capabilities to supply the Foochow area via the Min River transshipment point at Nanping have increased. Nanping is now served by the main Shangjao-Foochow road and will eventually be tied to the Yingtan-Amoy railroad by a spur line. [redacted]

[redacted] Nanping is an increasingly important center for supply activity, including river shipping.

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Coastal Shipping

Communist coastal shipping services into the Foochow area, including the newly developed supply and storage facilities on Santu and Loyuan Bays and in the Haitan Straits, began in the spring of 1955. Chinese Nationalist sightings suggest that at least 30,000 tons of supplies moved into the Foochow area by this means during 1955. This amount is clearly insufficient in terms of the supply needs for a major military action, but it has apparently been enough for construction work and stockpiling at air-field sites in that area.

Amoy is closed to coastal shipping by the presence of

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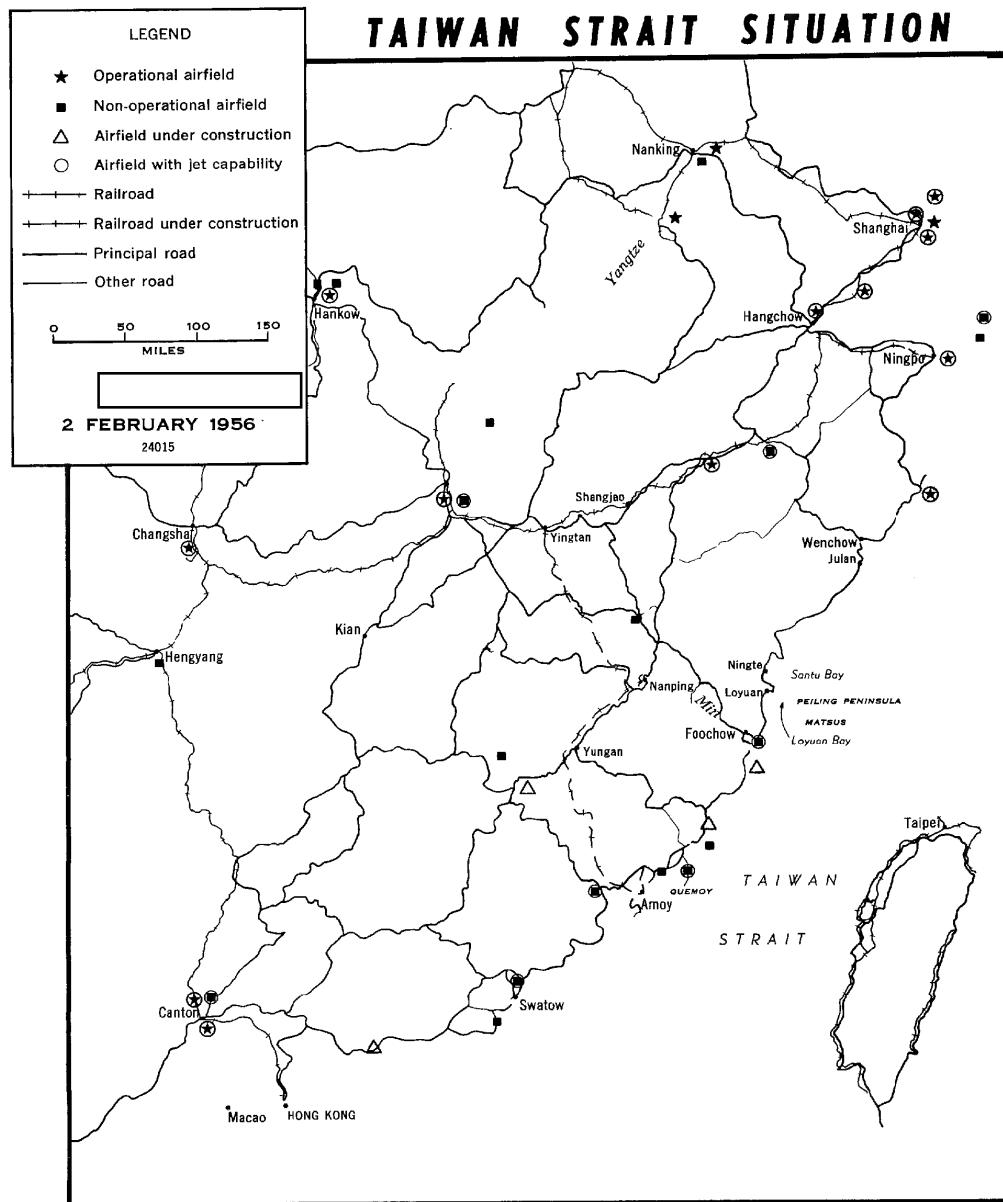
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the Nationalists on Quemoy. It is supplied overland from inland points and from the port of Swatow, now a major military encampment area, and the northern limit of Communist shipping activity from Canton. Regular shipping activity, including small

tankers, has been observed at Swatow for some time.

Air Facilities

Most of the new coastal airfields are favorably located for supply by sea and



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river and, during periods of construction, intensive small boat activity in the vicinity of the airfield sites indicated that this was an important means of supply. They are all also connected with the principal road network by first-class access roads. The railroad to Amoy, when complete, will provide additional supply for the airfields in the area.

The Chinese Communists now have the capability to support full-scale air opera-

tions out of the completed airfields, but such support could be made hazardous by the Nationalist air force. Stockpiles of POL may already be on hand in revetted storage facilities which appear adequate to supply at least a month's active operations at each field. A substantial volume of supplies could be brought into the Taiwan Strait area in a very short period of time if coastal shipping were given air protection.

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ANTI-WESTERN ELEMENTS IN SYRIA

The weak coalition cabinets which have held office in Syria since the overthrow of dictator Shishakli in February 1954 have been unable to oppose anti-Western elements effectively. The present cabinet of Prime Minister Ghazzi is under the influence of an anti-Western minority in civil and army circles which is responsible for Syria's alignment with Egypt and Saudi Arabia in opposition to the Baghdad pact.

Political Alignments

The parliamentary elections of September 1954 resulted in a shift from traditional parties toward radical groups and independents known for their nationalist or anti-Western views. No single party received a majority of the 142 seats. Independents--a heterogeneous collection ranging from archconservatives to crypto-Communists--received about 55 seats. Khalid al-Azm, a former prime minister and foreign minister who co-operates with all elements and who

has followed a strong anti-Western line, became the leader of the largest bloc of independents.

The Arab Socialist Resurrection Party (ASRP)--a so-called "national, popular, progressive, socialist, and revolutionary group"--increased its seats from four in 1949 to control of 22 in 1954. The ASRP has a superior organization and its leader, Akram Hawrani, is an accomplished politician.



PRIME MINISTER GHAZZI

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INDEPENDENT LEADER AZM

The party opposes ties with the West, union with Iraq, and any compromise with Israel. It is a vigorous supporter of alignment with Egypt. ASRP civilian support comes from students, white-collar workers and lower-echelon government employees, and from among the junior officers in the army.

The Syrian Communist Party has become an increasingly significant political force. Its leader, Khalid Bakhdash, the single Communist deputy who sits on seven parliamentary committees including foreign affairs, is probably the outstanding Communist leader in the Arab states. The Syrian Communists--repressed

under Shishakli--have since his overthrow, though still illegal, steadily infiltrated the government, army, press, and the labor movement. They co-operate with the ASRP, the Azm independents, and even the extreme rightist Moslem Brotherhood.

Army Factions

Anti-Western elements are also in the ascendancy in the army, the final arbiter of Syrian politics. The army factions now on top are adherents of the ASRP, the Communists, and of the "little RCC," the latter so-called because it wants to establish an Egyptian-type



COMMUNIST LEADER BAKHDASH

Revolutionary Command Council. The common denominator of these army groups is their anti-Western orientation.

The ASRP group in the army, whose views coincide with its civilian counterpart, is perhaps the largest and most cohesive. Its greatest strength is among the officers in the Israeli front command and among the junior officers generally. Akram Hawrani, civilian ASRP leader, exercises behind-the-scenes control. No dominant ASRP army leader has emerged since the assassination of Colonel Adnan Malki, popular former staff officer in April 1955.



ASRP LEADER HAWRANI

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The Communist element in the army is not believed to be strong among the officers but may have considerable strength among the noncommissioned officers. The Communists have not made an active bid for leadership but lend their support to the ASRP.

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PRESIDENT QUWATLI

While the RCC group co-operates with the ASRP-Communist faction, this co-operation appears to be a marriage of convenience since the group is opposed to Communism and is not necessarily even socialist in its outlook.

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CHIEF OF STAFF SHUQAYR

The anti-Western coalition has consolidated its position by repressive measures against its army opponents and rivals--the pro-Iraqi officers, and the followers of the extreme rightist Syrian Socialist National Party (SSNP). As a result, the pro-Iraqi element in the army, though strong following the expulsion of Shishakli, lost strength steadily last year.

Six key pro-Iraqi officers were forced to accept dismissal last summer over their involvement in an alleged Iraqi-backed coup against Syrian chief of staff Shuqayr. The American embassy in Damascus estimated in November that there were only three important pro-Western senior officers in the army and they had been transferred out of the range of effectiveness.

Status of Conservative Elements

Some Syrians are reported trying to reverse the anti-Western trend. President Quwatli insists that he is attempting to consolidate his position, build a stronger following, and remove leftist army officers from key

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positions. Attempts, however, to get the conservative parties to work together have been unsuccessful and Quwatli's short-term appeasement of leftist elements has strengthened them.

Quwatli, who was overthrown by a military coup in 1949, but returned to office in 1954, is unlikely to take decisive action now. He is further handicapped by his financial obligations to Egypt and Saudi Arabia. Shuqayr, who is reported working against leftist control of the army, is an unpredictable figure. Though declaring himself to be anti-Communist and well-disposed toward the West, he is primarily concerned with keeping his job regardless of the type of government.



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Pro-Western elements in Syria appear to be divided, neutralized and intimidated. They are unwilling or unable to take positive steps to reverse the present trend against them. Any Syrian government operating under these conditions will pursue an anti-Western, anti-Baghdad pact policy, and will probably continue to align itself with Egypt and Saudi Arabia. It will also probably become increasingly receptive to Soviet bloc overtures.

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CHILE'S ECONOMIC PLIGHT

Chile's long-continued inflation, which has been the cause of extensive strikes in the copper industry and elsewhere, is the result of a serious imbalance in the economy. The imbalance stems in part from the country's dependence on copper and nitrate exports and in part from efforts of successive governments to reduce this dependence by encouraging industrial self-sufficiency. The Ibanez government, though persistently handicapped by its inept-

ness in dealing with an unfriendly legislature, has in the past two years made some progress in attacking the basic problem, and last month won narrow congressional approval for the first step of its new anti-inflation program.

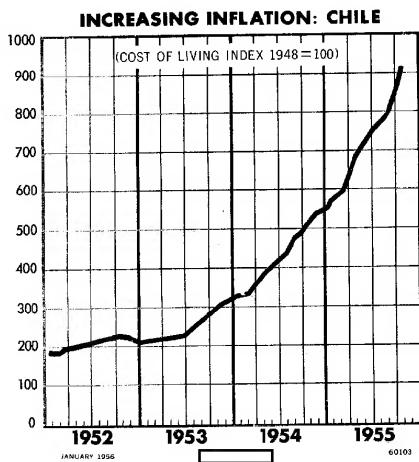
Persistent Inflation

The country's most pressing economic problem is a persistent inflation, especially marked in the last three years.

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The issue won the presidency for Carlos Ibanez in 1952 and has since animated all political controversy.

Mounting almost continuously since the 1930's, this inflation has reached a level almost unknown even in an era of severe price dislocation. In the 18-year period ending in mid-1955, the wholesale price average in Chile rose over 3,700 percent. By comparison, the wholesale price average in the United States somewhat more than doubled in the same period, and in Peru increased over ten-fold. The rise in the cost of living in Chile has been particularly sharp since 1952--71 percent in 1954 and an average of over 6 percent a month through most of 1955.

The constantly rising prices have led to frequent strikes involving at one time or another practically all types of workers. Virtually the entire copper industry was on strike from 14 December 1955 to 6 January 1956, and on 9 January, a general strike was staged, unsuccessfully.

Strikes

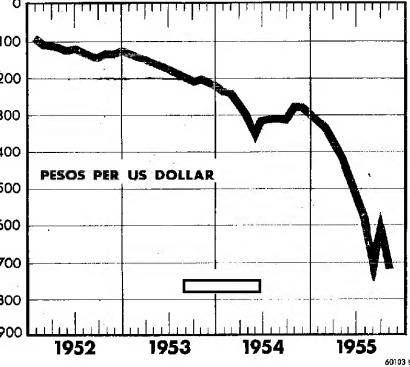
Inflation has offered a fruitful field of exploitation

to Chile's Communist Party. As recently as 1946, Communists participated in the government and still exert considerable influence in labor and in the educational system. Their infiltration of the armed forces remains negligible. In the recent strike trouble, the Communists in general have opposed moves which might give the government an excuse to crack down on them, and have concentrated instead on political agitation looking toward an alliance with other anti-US groups in the congressional elections of March 1957 and the presidential election of September 1958.

The Long-Range Problem

Chile has the resources to support a viable economy with rising standards of living. Even now its gross national product--\$392 per capita in 1954 and slightly higher the previous year--is substantially higher than the general Latin American average of \$255 per capita.

In copper--of which Chile possesses 30 percent of the world's known reserves--Chile is currently profiting from the boom conditions which have raised prices to the unusually high level of 43 cents a pound in the United States and 49 or 51 cents on the London Metal Exchange. Final figures for

**WEAKENING EXCHANGE RATE IN CHILE
(END OF MONTH QUOTATIONS)**

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1955 copper earnings may set a new record despite the December strike. The vulnerability of the economy to fluctuation in the world price of its principal exports can be seen from the record of Chile's copper earnings, which varied from \$143,000,000 in 1950 to \$249,-000,000 in 1952.

In its other main export, nitrates, the country has suffered from a generally declining trend as regards both production and exports. Exports amounted to only \$64,000,000 in 1954. The remaining exports, which include such commodities as iron ore, wool, and forest products, account for no more than 10 percent of Chile's total earnings.

Effort to Industrialize

In an attempt to escape from dependence on the export of a narrow range of products, Chilean governments since 1938 have made a determined effort to develop local industries, and industrial output as a whole has risen about 165 percent in this period. The increase has been most marked in iron and steel production, which multiplied 18-fold to achieve an output of 333,000 tons of crude steel in 1954.

Chile has now become largely self-sufficient in a

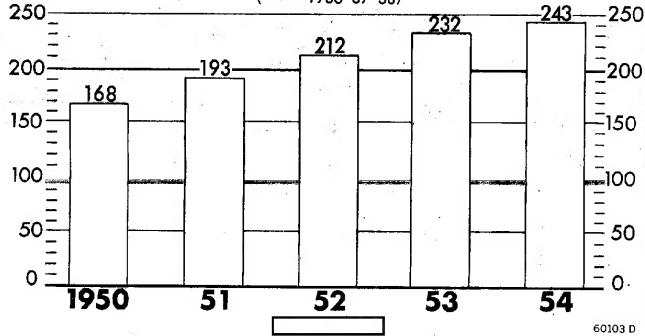
wide range of items from pharmaceuticals to cement, but remains heavily dependent on imports of machinery and other steel products, chemicals and such raw materials as sugar and cotton.

Distortions to the Economy

These gains, however, have been won at the cost of considerable distortion to the economy as a whole. In part because of Marxist and extreme nationalist attitudes in political circles, there has been exaggerated emphasis on the rapid development of basic industry as well as excessive reliance on government financing and control.

Chile has also run a consistent deficit in its international payments. Deficit financing and other inflationary policies have been rather lightly accepted on the ground that "a little inflation is good for a growing economy." Many of the new plants, moreover, have failed to produce goods commensurate with the investment.

At the same time, agriculture has been neglected and even discriminated against in the push for industrial development. Only a quarter of Chile's arable land is under cultivation, and soil erosion has been allowed to damage about 10,000,000 acres--almost 14 percent of the arable land--of the most fertile areas. Wheat, which was formerly exported in substantial quantities, and other basic food-stuffs are now imported in increasing amounts to support the generally inadequate Chilean diet. Only minor exploitation of the

INDUSTRIAL PRODUCTION: CHILE
(— 1936 '37 '38)

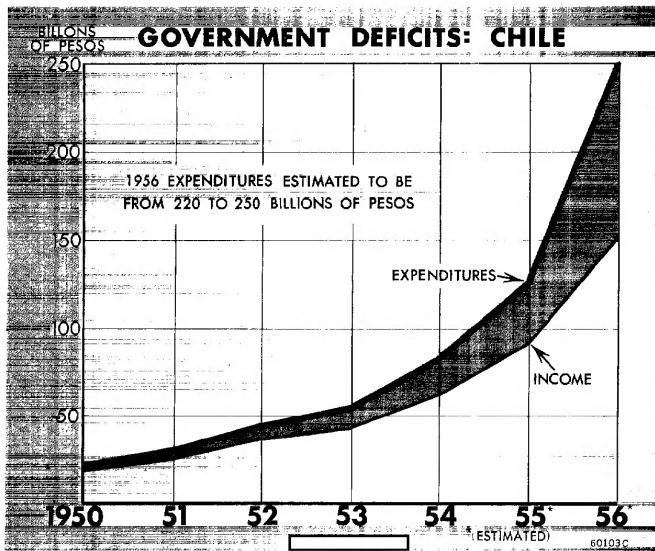
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system. Progress on both these programs is considered satisfactory to date.

In 1954 the government also enacted a law designed to encourage foreign investment in Chile, which has shown an upward trend since that time. In September 1955 an American firm of management consultants, Klein and Saks, began at government invitation a survey of the country's requirements for economic stabilization.

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extensive and potentially valuable forest lands has yet been undertaken.

Transportation has also been neglected. Needed replacements of railroad rolling stock are badly in arrears. It was estimated in 1951, for example, that 63 new locomotives were required, but comparatively few have been acquired since that time. Of Chile's 32,000 miles of highways, only about 1,000 miles are hard-surface and in many rural areas ox carts are the only vehicles usable in the winter months.

Current Government Policies

The Ibanez government has thus far had little or no success in arresting Chile's inflation. The government has, however, shown an increasing awareness of the dangers of Chile's unbalanced development and a growing willingness to make at least oblique attacks on the basic problem.

In 1954 it undertook an eight-year program aimed at raising total agricultural output by 38 percent and correcting the more serious deficiencies of the transportation

The basic difficulty about all such plans, however, is the government's doubtful ability to put them into effect. Ibanez has never commanded a working majority in Congress, which is fragmented into 18 different parties, most of which are concerned with political maneuvering or protecting special interests than in any comprehensive attack on the country's basic economic problem. The Ibanez administration, on its part, has inspired little confidence in its leadership, tending to ask for broad emergency powers without offering a co-ordinated program of reform.

In late November, the administration again attempted to obtain congressional support for an anti-inflation program. This time it did not ask for broad powers but presented bills designed to freeze wages, salaries and prices, to reduce government payrolls by about 20 percent, and to make extensive retrenchments in the social security system. Final passage of the wage-price bill by a bare majority on 19 January suggests a possible break in the legislative log jam on the economic stabilization program. There may still be serious difficulties, however, in getting the program carried out.

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